

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**SB 253 – HB 246**

January 31, 2019

**SUMMARY OF BILL:** Phases out the occupational privilege tax on all occupations subject to the \$400 annual tax by reducing the tax by \$100 per year over the next 4 years.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact – \$23,375,600/FY18-19**  
**\$46,751,300/FY19-20**  
**\$70,126,900/FY20-21**  
**\$93,502,500/FY21-22 and Subsequent Years**

**Decrease State Expenditures – \$243,600/FY18-19**  
**\$487,200/FY19-20**  
**\$730,800/FY20-21**  
**\$974,400/FY21-22 and Subsequent Years**

**Increase Local Revenue – \$116,000/FY18-19**  
**\$232,100/FY19-20**  
**\$348,100/FY20-21**  
**\$464,200/FY21-22 and Subsequent Years**

**Assumptions:**

- Pursuant to Tenn. Code Ann. § 67-4-1703(a), occupational privilege tax is a \$400 annual tax on persons engaging in certain occupations in Tennessee as specified in Tenn. Code Ann. § 67-4-1702.
- Pursuant to Tenn. Code Ann. § 67-4-1701, privilege tax collections are required to be deposited to the General Fund.
- The Department of Revenue (DOR) reports that there are approximately 236,600 occupational privilege taxpayers, annually paying approximately \$94,640,000 in occupational privilege taxes (236,600 x \$400). The tax is due June 1 of each year and it is paid for the following twelve months. The total number of taxpayers is assumed to remain constant into perpetuity.
- The current tax collection schedule and amounts are estimated as follows:

UNDER CURRENT LAW				
<u>Tax Year End Date</u>	<u>Current Tax Rate</u>	<u>Current Tax Collections</u>	<u>Due Date</u>	<u>Fiscal Year</u>
May 31, 2019	\$ 400	\$ 94,640,000	June 1, 2018	FY17-18
May 31, 2020	\$ 400	\$ 94,640,000	June 1, 2019	FY18-19
May 31, 2021	\$ 400	\$ 94,640,000	June 1, 2020	FY19-20
May 31, 2022	\$ 400	\$ 94,640,000	June 1, 2021	FY20-21
May 31, 2023 and Subsequent Years	\$ 400	\$ 94,640,000	June 1, 2022	FY21-22 and Subsequent Years

- This legislation would reduce the tax rate by \$100 each of the next 4 years.
- The proposed tax collection schedule and amounts under this legislation are estimated as follows:

UNDER THIS BILL				
<u>Tax Year End Date</u>	<u>New Tax Rate</u>	<u>New Tax Collections</u>	<u>Due Date</u>	<u>Fiscal Year</u>
May 31, 2019	\$ 400	\$ 94,640,000	June 1, 2018	FY17-18
May 31, 2020	\$ 300	\$ 70,980,000	June 1, 2019	FY18-19
May 31, 2021	\$ 200	\$ 47,320,000	June 1, 2020	FY19-20
May 31, 2022	\$ 100	\$ 23,660,000	June 1, 2021	FY20-21
May 31, 2023 and Subsequent Years	\$ -	\$ -	N/A	FY22-23 and Subsequent Years

- The resulting decrease in state revenue is estimated as follows:

PRIVILEGE TAX DECREASE	
<u>Fiscal Year</u>	<u>Decrease in Privilege Tax Collections</u>
FY17-18	\$ -
FY18-19	\$ 23,660,000
FY19-20	\$ 47,320,000
FY20-21	\$ 70,980,000
FY21-22 and Subsequent Years	\$ 94,640,000

- Pursuant to Tenn. Code Ann. § 67-4-1709, any employer, including any governmental entity, is authorized to remit the occupational privilege tax on behalf of persons subject to the tax who are employed by such employer.
- The DOR reports that there are approximately 2,436 state employees for which the State of Tennessee is paying a total of \$974,400 per year (2,436 x \$400). The number of state employees is included in the total number of 236,600 taxpayers, and is assumed to remain constant into perpetuity.
- The Tennessee Advisory Commission on Intergovernmental Relations' 2016 study (*The Professional Privilege Tax in Tennessee: Taxing Professionals Fairly*) reports that 64

percent of occupational privilege taxpayers reside out of Tennessee, while 36 percent reside in the state.

- It is assumed that 50 percent of tax savings by in-state residents, net of the amounts paid by the state on behalf of such residents, will be spent in the economy on sales-taxable goods and services.
- The decrease in state tax collections from state employees, the equivalent decrease in state expenditures for such employees, the net tax savings, and the amount of such tax savings re-spent in the economy on sales-taxable goods and services are estimated as follows:

STATE EMPLOYEE PORTION/TAX SAVINGS			
<u>Fiscal Year</u>	<u>Decrease in Privilege Tax Collections from State Employees/Decrease in State Expenditures</u>	<u>Net Tax Savings</u>	<u>Tax Savings Re-Spent in Economy on Sales-Taxable Goods and Services</u>
FY17-18	\$ -	\$ -	\$ -
FY18-19	\$ 243,600	\$ 23,416,400	\$ 4,214,952
FY19-20	\$ 487,200	\$ 46,832,800	\$ 8,429,904
FY20-21	\$ 730,800	\$ 70,249,200	\$ 12,644,856
FY21-22 and Subsequent Years	\$ 974,400	\$ 93,665,600	\$ 16,859,808

- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net increase in state sales tax revenue and the total increase in local sales tax revenue are estimated as follows:

SALES TAX INCREASES		
<u>Fiscal Year</u>	<u>Net Increase in State Sales Tax Collections</u>	<u>Total Increase in Local Sales Tax Collections</u>
FY17-18	\$ -	\$ -
FY18-19	\$ 284,375	\$ 116,046
FY19-20	\$ 568,750	\$ 232,091
FY20-21	\$ 853,124	\$ 348,137
FY21-22 and Subsequent Years	\$ 1,137,499	\$ 464,183

- The net decrease in state revenue as a result of this legislation is estimated as follows:

NET STATE REVENUE IMPACT			
<u>Fiscal Year</u>	<u>Decrease in Privilege Tax Collections</u>	<u>Net Increase in State Sales Tax Collections</u>	<u>Net Decrease in State Tax Revenue</u>
FY17-18	\$ -	\$ -	\$ -
FY18-19	\$ 23,660,000	\$ 284,375	\$ 23,375,625
FY19-20	\$ 47,320,000	\$ 568,750	\$ 46,751,250
FY20-21	\$ 70,980,000	\$ 853,124	\$ 70,126,876
FY21-22 and Subsequent Years	\$ 94,640,000	\$ 1,137,499	\$ 93,502,501

- Occupational privilege tax returns are filed electronically and the DOR does not have any staff dedicated to this tax. Therefore, there will be no staff reductions as a result of phasing out the occupational privilege tax.
- Calculations used in this fiscal note have been omitted for the purpose of brevity. However, these calculations are on file with the Fiscal Review Committee staff and can be provided upon request.

## CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

/jdb